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United States General Accounting Office

Report to Congressional Committees

June 1999

DEFENSE MODERNIZATION ACCOUNT

Operations and Benefits



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United States General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

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Congressional Committees

The Secretary of Defense or the secretary of a military department may transfer certain unexpired funds from their appropriations¹ to the Defense Modernization Account, established by law in 1996.² Funds must come from savings achieved through efficient management of procurement or support of installations and facilities.³ Account funds may be used only for increasing procurement or for modernizing an existing system or a system being procured under an ongoing procurement program. Congressional intent in establishing the account was to encourage savings by the Department of Defense (DOD) and its military departments and to make those savings available for meeting shortfalls in funding for modernization. DOD is required to submit quarterly reports on the activities of the account to the six committees specified in the legislation.⁴

The legislation establishing the account requires us to review operations and benefits by March 1, 2000, and again by March 1, 2003. To satisfy the first review requirement, we determined the status of the funding and uses of the account, and whether DOD has reported to the six committees on the activities of the account.

Neither DOD nor the services have ever transferred funds into the Defense Modernization Account, and hence it has never been used. The services maintained that the reason for the inactivity in the account is that funds have not been available. In fact, the legislation prohibits the transfer of funds to the account if the secretary of a military department or the

¹At the end of the period of availability of a fixed-year appropriation, the appropriation "expires" and is available only for recording, adjusting, and liquidating obligations chargeable to that appropriation.

²Section 912 of the National Defense Authorization Act for Fiscal Year 1996 (P.L. 104-106).

³The statute provides that the Secretary of Defense and the secretaries of military departments may transfer unexpired funds in appropriation accounts available for procurement and unexpired funds available in the last 30 days of a fiscal year for support of installations and facilities, which are excess to requirements, to the Defense Modernization Account.

⁴The Senate Committees on Armed Services, on Appropriations, and on Governmental Affairs and the House Committees on National Security (now the Committee on Armed Services), on Appropriations, and on Government Reform and Oversight.

Secretary of Defense determines that there are greater priorities for the use of funds. According to the Air Force, it uses available funds for other purposes such as reprogrammings or as offsets to congressionally directed rescissions. The Marine Corps stated that it does not have excess funds in support of installations, facilities, or procurement. The Navy emphasized the lack of availability of funds to use for the account. The Army stated that it has not been able to afford transfers to the account because of tight budgets, readiness priorities, and support for contingency operations not always completely reimbursed by supplemental appropriations.

We also found that DOD has never submitted any of the required quarterly reports on the activities of the account to the specified congressional committees. According to DOD, the reason reports have not been submitted is that the account has been inactive. Nevertheless, had DOD submitted reports, the committees would have been informed that the account has been inactive.

DOD concurred with our findings. DOD also noted that considerable work had been done to formulate policies and procedures for operation of the account.

To satisfy our final review requirement, we plan to look at the account and report on its status before March 1, 2003. Please call me on (202) 512-5140 if you or your staff have any questions about this report.



Mark E. Gebicke
Director, National Security Preparedness Issues

List of Congressional Committees

The Honorable John W. Warner
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The Honorable Carl Levin
Ranking Minority Member
Committee on Armed Services
United States Senate

The Honorable Ted Stevens
Chairman
The Honorable David K. Inouye
Ranking Minority Member
Subcommittee of Defense
Committee on Appropriations
United States Senate

The Honorable Floyd Spence
Chairman
The Honorable Ike Skelton
Ranking Minority Member
Committee on Armed Services
House of Representatives

The Honorable Jerry Lewis
Chairman
The Honorable John P. Murtha
Ranking Minority Member
Subcommittee on Defense
Committee on Appropriations
House of Representatives

The Honorable Fred Thompson
Chairman
The Honorable Joseph I. Lieberman
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